

**MISSISSIPPI DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
AUGUST 2007**

**CON REVIEW: HG-RE-0607-013
NORTH MISSISSIPPI MEDICAL CENTER
REPLACEMENT OF MATERIAL MANAGEMENT AND GENERAL
ACCOUNTING SYSTEMS
CAPITAL EXPENDITURE: \$2,500,000
LOCATION: TUPELO, LEE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

North Mississippi Medical Center (NMMC) is a 650-bed general acute care, short-term medical/surgical hospital. NMMC is a non-profit, tax-exempt, Delaware corporation licensed in Mississippi. It is licensed to operate 554 medical/surgical beds, 20 adult chemical dependency beds, 33 adult psychiatric beds, 13 adolescent chemical dependency beds, and 30 rehabilitation beds. NMMC offers a broad scope of specialty and sub-specialty services as the major regional medical center of the area, General Hospital Service Area 1 (GHSA 1). North Mississippi Medical Center is governed by a 13-member Board. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations, the Commission on Accreditation of Rehabilitation Facilities, and licensed by the Mississippi Department of Health (MDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for NMMC are as follows for the years 2003 through 2005:

**North Mississippi Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2003	65.15	4.87	27.41
2004	64.72	4.70	27.50
2005	62.66	4.91	29.77

Source: Division of Health Facilities Licensure and Certification, MDH.

B. Project Description

North Mississippi Medical Center is requesting Certificate of Need (CON) authority for the replacement of its material management (*AMS) and general accounting (*FONS) system. According to the applicant, the following explains the referenced acronyms for the proposed project:

*AMS stands for: Advanced Medical Systems
*FONS stands for: Financial on Line Network Systems

NMMC will implement a new technology, integrated software system for both material management (AMS) and general accounting (FONS) systems to be deployed for facilities on the Tupelo campus and five community hospitals located throughout NMMC's service area. The applicant submits that the system is a replacement for both the current AMS material management system (1993) and the general ledger (a homegrown COBOL software system dating back to the 1970's). The current general ledger system, being over 30 years old, is based on older technology which requires a staff of programmers skilled in cobal programming languages. Since colleges and universities have for a number of years ceased to offer courses in these programming languages, NMMC is now faced with its programming staff reaching retirement age, with no alternative to maintaining the ability to program the existing system.

North Mississippi Medical Center asserts that the material management portion of the system will cover purchasing, receiving, accounts payable, issuing and transfer of goods. The general accounting portion of the software will cover general ledger, asset tracking, investment management and banking management. The software is also utilized at the five community hospitals located throughout its service area.

North Mississippi Medical Center believes that the replacement system will allow for real time reporting, dashboard reporting and comparisons to budget, in addition to electronic funds transfer, electronic catalogs, electronic contract management, electric bid processing and advance ship notice. All of the data will flow seamlessly within the same system rather than interfacing between disparate systems using different operating systems and flowing through interfaces.

According to NMMC, the proposed replacement of the material management and the general accounting system at NMMC is the second of several computerized systems to be purchased by the hospital over the next few years.

According to the applicant, there will be no increase in current licensed capacity and no new services are involved as a result of the proposed project.

According to the applicant, no new personnel will be required to staff the proposed project.

The total proposed capital expenditure of \$2,500,000 is comprised of non-fixed equipment cost, which includes the following: software (40 percent), conversion services (40 percent) and hardware (20 percent). See capital expenditure summary, page 6. The applicant proposes to finance this project with cash reserves.

According to the applicant, the proposed capital expenditure for the project will be obligated within 30 days of CON approval and it is expected that the project will be completed within 12 months of CON approval.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health reviews applications involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), and 41-7-193, Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197(2) of the Mississippi Code 1972, Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on September 4, 2007.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The *FY 2007 State Health Plan* does not contain criteria and standards for replacement of material management and general accounting systems as proposed by this application. However, this project is in substantial compliance with the overall objectives as contained in the *FY 2007 State Health Plan*.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the State Health Plan

As previously stated, the *Plan* does not contain criteria and standards for replacement of material management and general accounting systems as proposed by this application. However, as previously stated, this project is in substantial compliance with the overall objectives as contained in the *FY 2007 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that the proposed project has been in NMMC's five year capital plan for the last two years and the acquisition cost has been included in its fiscal 2007 operation budget, which has been approved by NMMC's board of directors.

GR Criterion 3 – Availability of Alternatives

According to North Mississippi Medical Center, the current systems are approaching the critical point of no longer being able to support them. The need to replace them is imminent and this software can perform all of the required functions for a reasonable cost. The applicant asserts that the cost of other systems was up to \$7.5 million. The applicant believes that it will be able to bring the proposed system on line for \$2.5 million.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections, this project will realize annual net losses of \$766,667 for the first three years of operation.

- a. **Proposed Charge:** According to the applicant, there are no projected revenues and utilization associated with this project. There should be no impact on gross revenue and minimal impact on expenses per patient day or per procedure.
- b. **Projected Levels of Utilization:** As mentioned above, there are no projected revenues and utilization associated with this project.
- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's vice president - finance attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts that there are no clinical services associated with this project.
- b. **Relocation of Services:** This application is for the replacement of material management and financial accounting systems on the existing hospital campus.
- c. **Probable Effect on Existing Facilities in the Area:** The proposed project should have no effect on existing facilities in the area because no additional beds or services will be added.

- d. **Community Reaction:** The application contains one letter of support for the project. NMMC asserts that implementation of the proposed project should be virtually transparent to the community since it is an internal system to support non-patient care activities.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** The applicant asserts that as a not-for-profit community owned medical center, it is committed and expected to provide services to the entire service area population, including the medically under served patients.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that NMMC has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** North Mississippi Medical Center is a Medicare and Medicaid provider. The applicant reports that in 2005, 6.7 percent, and in 2006, 5 percent of its gross patient charges resulted in uncompensated care. The applicant further projects that in 2007, 5.7 percent of its services will be utilized by medically indigent patients.

GR Criterion 7 - Information Requirement

NMMC submits that it will record and maintain the information required by this criterion and make it available to the Mississippi Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

North Mississippi Medical Center believes that implementation of the proposed project will have a positive impact on the existing health care system, because of the ability of the community hospitals to retain their cash flow. The applicant believes that without replacement of the system, the applicant cannot continue to provide a reliable patient accounting system, which will adversely affect the financial well being of applicant's services to its patients.

North Mississippi Medical Center does not anticipate that the approval of this application will have an adverse impact on other providers in GHSA 1.

The Department received no letters of opposition concerning the proposed project.

Staff does not anticipate that this project will have an adverse impact on any of the

existing hospitals in GHSA 1.

GR Criterion 9 - Availability of Resources

North Mississippi Medical Center submits that it has available, or in the case of health personnel will obtain, adequate resources for continuation of clinical services and anticipated volume increases. NMMC indicates that the hospital experiences consistent staffing levels with a turnover rate lower than the industry average.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, NMMC provides a full range of ancillary and support services on campus. These services are appropriately organized and made available to all clinical service functions.

GR Criterion 16 - Quality of Care

North Mississippi Medical Center is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Cost Item	Projected Cost	Percent
a.	-0-	-0-	-0-
e.	Total Non-Fixed Equipment Cost:		
	• Software	\$1,000,000	40%
	• Conversion Services	1,000,000	40%
	• Hardware	500,000	20%
f.	-0-	-0-	-0-
g.	-0-	-0-	-0-
h.	-0-	-0-	-0-
i.	-0-	-0-	-0-
j.	-0-	-0-	-0-
k.	Total Proposed Capital Expenditure	<u>\$ 2,500,000</u>	<u>100%</u>

The above estimated capital expenditure is proposed for the replacement of material management (AMS) and general accounting (FONS) system. The proposed project involves the purchase of non-fixed equipment.

B. Method of Financing

North Mississippi Medical Center proposes to finance the capital expenditure (\$2,500,000) with cash reserves.

C. Effect on Operating Cost

There are no projected revenues and utilization associated with this project. The only expense associated with the proposed project is depreciation and amortization.

North Mississippi Medical Center Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$-0-	\$ -0-	\$ -0-
Outpatient	-0-	-0-	-0-
Total Gross Patient Revenue	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$-0-</u>
Charity Care	-0-	-0-	-0-
Deductions	-0-	-0-	-0-
Total Deductions	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$-0-</u>
Net Patient Revenue	-0-	-0-	-0-
Other Operating Revenue	-0-	-0-	-0-
Total Operating Revenue	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$ -0-</u>
Expenses			
Operating Expenses:			
Salaries	\$-0-	\$-0-	\$-0-
Benefits	-0-	-0-	-0-
Supplies	-0-	-0-	-0-
Administrative Services	-0-	-0-	-0-
Services	-0-	-0-	-0-
Depreciation & Amortization	\$766,667	\$766,667	\$766,667
Interest	-0-	-0-	-0-
Bad Debts	-0-	-0-	-0-
Total Expenses	<u>\$ 766,667</u>	<u>\$ 766,667</u>	<u>\$766,667</u>
Net Income (Loss)	<u>\$ (766,667)</u>	<u>\$ (766,667)</u>	<u>\$ (766,667)</u>
Utilization			
Inpatient Day	-0-	-0-	-0-
Outpatient Day	-0-	-0-	-0-
Charge Per Outpatient Day	-0-	-0-	-0-
Charge Per Inpatient Day	-0-	-0-	-0-
Cost Per Outpatient Day	-0-	-0-	-0-
Cost Per Inpatient Day	-0-	-0-	-0-

D. Cost to Medicaid/Medicare

North Mississippi Medical Center's projection of costs to third party payors is as follows:

Patient Mix by Type Payor	Utilization Percentage	First Year Expenses
Medicaid	10.5	\$ 80,500
Medicare	52.4	401,734
Other	37.1	284,433
Total	<u>100</u>	<u>\$ 766,667</u>

North Mississippi Medical Center projects 4.3 percent of gross patient revenue to be provided to bad debt patients and 5 percent to charity care patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid states that effective October 1, 2005, it changed the methodology by which the Division reimburses inpatient hospital services so that cost incurred subsequent to that date no longer affects per diem rates; and that any portion of the cost which may relate to outpatient service will be paid as outlined in the *Medicaid State Plan*. The Division takes no position on the proposed project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; and duly adopted rules, procedures and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by North Mississippi Medical Center for the replacement of material management (AMS) and general accounting (FONS) system.